

State of Indiana Indiana Department of Correction

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ADMINISTRATIVE PROCEDURES

Manual of Policies and Procedures

Title

ASSET AND INVENTORY MANAGEMENT

Legal References	Related Policies/Procedures	Other References
(includes but is not limited to)	(includes but is not limited to)	(includes but is not limited to)
IC 4-7-1-2 IC 4-13-1-13 IC 4-13-2-12.5 IC 11-8-2-5(a)(8) IC 11-8-2-5(a)(9)	00-02-101 00-04-102 04-01-301	ACA: ACI: 3-4037 JTS: 1B-01, 1B-07 CO-1B-05, 1B-08

I. DEFINITIONS:

For the purpose of these procedures, the following definitions are presented:

- A. Asset and Inventory Management System (AIMS): A manual stock card or software program approved by the Chief Executive of Finance and Performance designed to track the receiving, storage, movement and use of the assets of the department.
- B. Asset: Any item that was purchased or transferred from an agency, or donated from the public for the state's use.
- C. Audit: An independent count of assets to verify the accuracy of the perpetual count and consistency of the procedures.
- D. Business Administrator: The chief fiscal officer of a facility.
- E. Consumable Asset: Any asset purchased or obtained for state's use with a monetary value of Five Hundred Dollars (\$500.00) or less and placed into holding (storage).
- F. Chief Executive of Finance and Performance: The Executive of the Finance and Performance Division responsible for overseeing the Asset and Inventory Management Program.
- G. Cycle Counting: The practice of counting a portion of the inventory on a continuing and repeated basis.
- H. Equipment: Any asset that has an original cost of Five Hundred Dollars (\$500.00) or more and has an estimated life of more than one (1) year.

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- I. Fixed Asset: Any equipment, land, building, land and building improvements purchased or obtained in any manner for state use (excluding building construction that is in progress).
- J. Inventory: The process of accounting for the assets assigned to or obtained by an agency or facility for state use.
- K. Inventory Manager: The Fiscal Division position designated by the Chief Executive of Finance and Performance to manage the Asset and Inventory Management Program.
- L. Major Fixed Asset: Any fixed asset that has an original cost of Twenty Thousand Dollars (\$20,000.00) or more.
- M. Minor Fixed Asset: Any fixed asset that has an original cost of between Five Hundred Dollars and Nineteen Thousand Nine Hundred Ninety-Nine Dollars and Ninety-Nine Cents (\$500.00 to \$19,999.99). (It is strongly recommended that \$500.00 be the lowest fixed asset value amount tracked.)
- N. Perpetual Inventory: The tracking of additions to and the removal of assets from an assigned location to maintain a current balance on hand.
- O. Physical Inventory: The process of counting the actual assets on hand.
- P. Storage Locations: Any secured or unsecured area used to store assets with the combined valued of One Thousand Dollars (\$1000.00) or more.
- Q. Verify Inventory: The process of comparing a physical inventory to the perpetual inventory in order to track and justify any discrepancies.

II. ASSET AND INVENTORY MANAGEMENT PROGRAM:

The Chief Executive of Finance and Performance shall be responsible for creating and maintaining asset records for the department consistent with the guidelines established by the Auditor of State and these administrative procedures. The authority to manage this program is delegated to the Inventory Manager.

III. <u>UNDERLYING PRINCIPLES</u>:

The department's philosophy on inventory management shall be guided by the following four (4) principles otherwise known by the acronym "CARE":

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A. CONTROL:

Good inventory management is based on a system of checks and balances that maintains internal control. Internal control is maintained by ensuring that each facility's Asset Management Plan includes procedures that ensure the segregation of duties among staff involved in the inventory management process as well as the independent audit of results.

1. Segregation of Duties

No one individual shall have absolute authority or control over the inventory process.

2. Independent Audit

Internal control procedures are verified and checked to insure that the principles and requirements of the Assess Management Plan are achieved.

3. Procurement Matches Inventory and Usage

Records shall be maintained to insure that the dollar summation of the procurement documents match the dollar valuation stated on the usage and perpetual inventory records of the storage location.

B. ACCOUNTABILITY

The responsibilities of each individual from the facility and the central office involved in the inventory management process shall be defined.

1. Uniformed Numbering System

Each facility shall identify all fixed and consumable assets with an identification number.

2. Single Point of Receiving

Each facility shall identify a place where all fixed and consumable assets are accounted for before distribution.

3. Limited Access to Assets

Each facility shall identify staff responsible for ensuring that the integrity of the fixed and consumable asset count is maintained and

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as well as the staff with the authority to remove these assets from inventory or the storage location.

C. REPORTING

Results shall be documented and standards established in order for progress to be measured. Inventory records shall be maintained at the facility.

Management by Exception

Facilities shall report results that differ from the established objectives authorized by the Chief Executive of Finance and Performance.

D. EVALUATION

Results from the reporting system shall be reviewed with facility personnel and any deviation from established objectives shall be corrected.

IV. FIXED ASSET:

Each facility shall maintain a perpetual inventory and shall establish and implement operational procedures consistent with these administrative procedures and the guidelines established by the State Auditor's Office. The perpetual inventory shall be maintained at two (2) levels, major and minor assets. The fixed asset monitoring allows the state to maintain an accurate record of its assets and their location as well as allow the State Board of Accounts and the department's internal auditors to accurately audit each facility. Additionally, state agencies are required to submit fix asset records in order to receive federal funding. A major fixed asset inventory report shall be submitted to the Auditor of the State quarterly (or as otherwise prescribed). During quarters in which there is no fix asset inventory activity, the facility shall submit a memorandum to the Auditor of the State indicating that there was no fixed asset activity.

A. RECEIVING, NUMBERING AND TAGGING ASSETS

All fixed assets shall be received at a centralized location at each facility and verified against an authorized purchase order. The Business Administrator shall assign each fixed asset a permanent identification number.

Each identification number shall consist of nine (9) digits. The first three (3) digits shall be the facility's agency number. The remaining six (6)

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digits shall be assigned sequentially starting with 000001 and ending with 999999.

All fixed assets shall be tagged in accordance with State Board of Accounts policy.

B. REPLACEMENT ASSET PROCUREMENT

Each facility shall establish and implement operational procedures that ensure the procurement process for asset replacement is tied to the retirement of the old asset.

C. INVENTORY REPORTING

The facility major fixed asset inventory shall be reported on forms prescribed by the State Auditor's Office (State Form 39598, FIXED ASSET INVENTORY). These forms shall be typed and each line completed in full (or by electronic document). Any reports not completed correctly will be returned to the facility.

ATTACHMENT A presents a sample of State Form 39598, FIXED ASSET INVENTORY. This form is available in electronic format, via the IDOC Inventory Manager

ATTACHMENT B presents examples and instructions for the correct method of recording additions, changes and retirements from the fixed asset inventory.

ATTACHMENT C is a listing of the "Type Codes" used on line K of the inventory recording forms.

If there are no fixed asset additions, changes or retirements to be reported during a given quarter, a memorandum shall be submitted indicating the agency number and that there is no action to report. This memorandum shall be signed by the Facility Head or designee.

D. PHYSICAL INVENTORY COUNTS AND RECORDS

At a minimum each facility shall complete a physical inventory count on a semi-annual basis accounting for all the facility's fixed assets by means of cycle counting and independent audit. Additional inventories shall be taken, as necessary, to facilitate accounting for the management and control of such inventories. All inventory records shall be maintained as

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long as the asset is in use and for two (2) years following a State Board of Accounts audit. The results of such inventories shall be:

- 1. Used to reconcile and adjust the records of inventory items as prepared by the Auditor of State;
- 2. Sent to the Auditor of State for update of state inventory records; and,
- 3. Entered into AIMS.

E. PROCEDURE FOR TAKING PHYSICAL INVENTORY

A properly performed physical inventory shall include the following:

- 1. A review of the procedures and forms involved in fixed asset accounting.
- 2. Obsolete, discontinued and damaged equipment shall be segregated from the count and listed on State Form 13812, NOTIFICATION OF SURPLUS STATE-OWNED PROPERTY. (ATTACHMENT E.) State Form 13812 shall be submitted to the Facility Head or designee for disposition. After State Form 13812 has been approved and returned, the equipment may be disposed of in accordance with the instructions on the form. (NOTE: Equipment shall not to be stripped for parts (cannibalized) until an approved State Form 13812 has been received authorizing to scrap (or junk) the equipment and stating, "Dispose of in accordance with IC 4-13-1-13 (b)(4)(B)").
- 3. After receipt of an approved State Form 13812 indicating the appropriate disposition and the obsolete, discontinued and damaged equipment has been segregated from the count, these items shall be listed as "RETIREMENTS" (Removed from Inventory). If the retirement item is a major fixed asset, the retirement shall be reported to the State Auditor's Office using State Form 39598, FIXED ASSET INVENTORY.
- 4. The physical count of inventory on hand shall be counted and the totals reflected on the count sheets.
- 5. The Business Administrator or designee shall be responsible for the supervision of the physical inventory of all fixed assets at the facility by means of cycle counting. The Business Administrator or designee

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shall assign a sufficient number of qualified staff to take an accurate physical inventory, complete the count and verify the inventory.

- 6. The Business Administrator or designee shall be responsible for the independent audit of the perpetual inventory. The independent audits are to be conducted by staff other than those staff regularly charged with the responsibility for the perpetual inventory being reviewed. (E.g. Education Department staff shall not audit the Education Department equipment.)
- 7. The perpetual inventory records shall be posted to include all receiving reports and requisitions to date of "cutoff."

F. DONATIONS

The department may obtain fixed assets by donation. When a facility is contacted regarding a donation, State Form 43280, REQUEST FOR DONATION, shall be completed. (ATTACHMENT D.) This form may be completed by the individual making the donation or by the facility; however, it shall be signed by the donor. When completed, this form shall be submitted to the Chief Executive of Finance and Performance for final approval.

Items that are donated and have a value of \$500.00 or more must be accepted by the Commissioner and approved by the Governor. For the purpose of these procedures, the Commissioner has authorized the Facility Head to receive donations of less than \$500.00. Donations with a value of \$500.00 or more or those donations involving real estate must be approved by the Governor. State Form 43280 shall be completed for each request to donate an item.

State Form 43280 also provides for a continuing authorization to obtain goods. This authorization is approved for up to one (1) year from the date of the original authorization. The facility shall indicate on the form whether the donation is continuing. The Facility Head or designee shall ensure that if equipment is donated, the donated item(s) is added to the fixed asset inventory. All donated equipment shall be tagged as indicated in procedure #3 and added to the fixed asset inventory as indicated in procedure #5.

G. TRANSFER OF FIXED ASSETS

A fixed asset shall not be purchased from a specific account with the intent to utilize it in any manner other than for the authorized spending

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purposes of the account. Fixed assets shall not be purchased for immediate transfer or exchange for a fixed asset in another account. Any transfer of a fixed asset between accounts within the department shall be accomplished by completing State Form 44827, RECORD OF TRANSFER OF FIXED ASSETS. (See ATTACHMENT F.) This form shall be used when a fixed asset is transferred within a facility or between facilities. Both the sending and receiving facilities shall retain a copy of this form. A copy of this form shall be forwarded to the Chief Executive of Finance and Performance or designee. A "retirement" shall be completed by the sending agency and an "addition" shall be completed by the receiving agency using State Form 39598, FIXED ASSET INVENTORY, if the transfer is between facilities and the item is a major fixed asset.

A fixed asset may be transferred to an account not under the management of the department (i.e. another state agency). This type of transfer shall be completed by using State Form 13812, NOTIFICATION OF SURPLUS STATE-OWNED PROPERTY. The receiving agency must submit a memorandum on letterhead stationery requesting the fixed asset(s) and the sending facility must prepare a memorandum agreeing to the transfer. Both memorandums and State Form 13812 are to be submitted to the Chief Executive of Finance and Performance or to PEN Products, as applicable. The transfer shall not be made until approval is received from the State Surplus Division. When the transfer has been made, the sending agency shall complete a "Retirement" and the receiving agency shall complete an "Addition" using the State Form 39598, FIXED ASSET INVENTORY.

H. OBSOLETE, DISCONTINUED OR DAMAGED ASSETS

All obsolete, discontinued or damaged assets shall be placed in surplus prior to removing them from the fixed asset inventory. All state-owned assets, other than disposable assets (items that did not cost \$500.00 or were not assigned a fixed asset tag), shall be placed in surplus. In order to surplus any such item, State Form 13812, NOTIFICATION OF SURPLUS STATE-OWNED PROPERTY, shall be completed. (See ATTACHMENT F.) Obsolete, discontinued or damaged assets may be disposed of by selling, trading-in on new equipment, transferring (see Procedure IV. G.) or other action, including destroying. Each of these methods of disposition may be accomplished by checking the appropriate box under the heading "Disposition Requested" on State Form 13812.

Certain assets which are obsolete or discontinued, may retain a value. These items may be sold. In such cases, the estimated value of all items to

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be included in the sale must be in excess of \$100. This amount will offset the cost to advertise for bids on the item. The facility shall designate a contact person on State Form 13812 for prospective bidders to ask questions of or inspect the assets. The asset shall be marked "sell" on State Form 13812.

Some assets may be traded-in on the purchase of new assets. In such cases, the facility shall determine whether trading the asset is in the best interests of the facility and the department. In these cases, State Form 13812 "retirement" shall be completed on the trade in item and submitted with the Requisition for the new asset. The administrative procedures for Policy 04-01-201, "Purchasing," shall be followed in these situations.

Property transfers may include transfers to other state agencies or to the State Surplus Property Warehouse. If the transfer involves another state agency, Procedure IV. G. shall be followed. If the assets are transferred to the State Surplus Property Warehouse, the item shall be marked as usable and the transfer box checked. Next to the transfer box, the facility shall mark "to Warehouse" or "to Surplus." When the State Form 13812 has been approved, the pink and goldenrod copies will be returned to the facility. Both copies shall be delivered to the State Surplus Property Warehouse, along with all of the items listed on the form.

Facilities may have items that are damaged beyond where it is economically practical to repair. In these cases, the facility may want to scrap (or junk) these items. When appropriate, the box under "Disposition Requested" on the State Form 13812 shall be marked and "junk" or "scrap" shall be typed in next to the box. The facility shall submit a letter of justification explaining why the item(s) is to be destroyed along with a picture of the item(s) attached to State Form 13812. When approved, copies of State Form 13812 shall be returned marked "Dispose of in accordance with IC 4-13-1-13 (b)(4)(B)." The item(s) may then be destroyed or disposed of in the most practical and economical manner. Until the facility receives the approved State Form 13812, the item(s) shall not to be stripped for parts.

When state-owned vehicles are placed in surplus, additional requirements must be met. State Form 13812 shall be completed including the year, make, model, vehicle identification number, commission number, mileage and general condition of the vehicle. A picture of the vehicle and an odometer (mileage) statement (on the approved form) shall be submitted with State Form 13812. In some cases, a police check of the vehicle and the vehicle identification number may be required. In these cases, the facility will be notified after State Form 13812 has been submitted.

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In all cases where the item is a major fixed asset, State Form 39598, FIXED ASSET INVENTORY, shall be completed appropriately and forwarded to State Auditor's Office.

V. CONSUMABLE ASSETS:

Each facility shall establish and implement procedures for maintaining a perpetual inventory on all consumable items placed in storage. This perpetual inventory shall be maintained in AIMS.

A. RECEIVING CONSUMABLE ASSETS

All consumable assets shall be received at a centralized location at each facility and verified against an authorized purchase order. The Business Administrator shall assign each consumable asset with an identification number.

Identification numbers shall be obtained from an approved list issued by the Inventory Manager. All consumable assets placed in storage shall be marked/tagged with the following information:

- 1. Date received;
- 2. Identification number; and,
- 3. Purchase order number.

B. CONSUMABLE ASSET DONATIONS

The department may obtain consumable assets by donation. In cases where a facility is contacted regarding a donation, State Form 43280, REQUEST FOR DONATION, shall be completed. (Attachment D.) This form may be completed by the individual making the donation or by the facility; however, the donor must sign the form. When completed, this form shall be submitted to the Chief Executive of Finance and Performance for final approval.

Items that are donated and have a value of \$500.00 or more must be accepted by the Commissioner and approved by the Governor. For the purpose of these procedures, the Commissioner authorizes the Facility Head to receive donations of less than \$500.00 on behalf of the facility. For donations with a value of \$500.00 or more or those donations involving real estate, the Governor must approve the request. In all cases, State Form 43280 shall be completed.

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State Form 43280 also provides for a continuing authorization to obtain goods. This authorization is valid for up to one (1) year from the date of the original authorization. The facility shall indicate on the form whether the donation is continuing. The Facility Head or designee shall ensure that if an asset is donated, the donated item is added to the consumable asset inventory.

C. STORING CONSUMABLE ASSETS

Each facility shall establish and implement procedures for the storage of all consumable assets. These procedures shall include the following:

- 1. Consumable assets shall be stored in accordance with all applicable Federal, State and local laws and the special needs of the particular item.
- 2. Storage locations shall be identified in a uniform manner as prescribed by the Inventory Manager.
- 3. Storage locations shall be secured to protect the integrity of the consumable asset.
- 4. Storage locations shall be set up to ensure that all assets are rotated on a first in first out (FIFO) basis.

D. ISSUING OR SHIPPING CONSUMABLE ASSETS

Each facility shall establish and implement procedures for issuing/shipping all consumable assets. These procedures shall include the following:

- 1. All issued consumable assets shall be recorded.
- 2. The Business Administrator shall approve all returns to a storage location.

E. ADJUSTMENTS TO THE PERPETUAL INVENTORY

The Business Administrator shall ensure that all adjustments to the perpetual inventory are tracked.

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F. REPLENISHING CONSUMABLE ASSETS

The Business Administrator shall be responsible for implementing procedures for replenishing all consumable assets. The replenishment process shall consider the prior usage history, on hand quantities and on order quantities of the applicable asset(s).

G. PERPETUAL INVENTORIES RECONCILIATION

Each facility shall establish and implement procedures for the reconciliation of all perpetual inventories of consumable assets. These procedures shall include the following:

- 1. At a minimum of semi-annually, all perpetual inventories shall be reconciled by means of cycle counting. Any problem inventories may need to be reconciled more frequently. Facilities may undertake complete physical reconciliations or an alternative methodology on a monthly basis.
- 2. All variances shall be reconciled with notification to the proper authority, including an explanation of the variance and any remedial action needed and/or taken.
- 3. An independent random sample audit of the facility's storage location(s) on a monthly basis. This random sample shall consist of at least five percent (5%) of the items in a given storage location. This audit shall not be conducted by staff regularly charged with the responsibility for overseeing the perpetual inventory. (E.g. Education Department staff shall not audit the Education Department equipment.)

VI. ASSET EVALUATION:

A. BUSINESS ADMINISTRATOR'S REVIEW

The Business Administrator shall review, on a quarterly basis, the analysis of the asset inventory to determine compliance with the standards set by the Chief Executive of Finance and Performance. If a non-compliance issue arises, then the degree or extent of internal controls and the record system and related procedures shall be reviewed to determine the cause for the non-compliance. Corrective action shall be taken to bring the system into compliance. The Business Administrator shall advise the Facility Head and the Inventory Manager of the status of the compliance action.

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B. CENTRAL OFFICE REVIEW

The Inventory Manager shall review the facility analysis of the asset inventory to determine compliance with the standards set by the Chief Executive of Finance and Performance. If a non-compliance issue arises, the Inventory Manager shall assist the facility to address the non-compliance issue.

C. CENTRAL OFFICE AUDIT

The Inventory Manager shall conduct an audit, at least annually, of each facility's assets to monitor and evaluate the implementation of these administrative procedures and to review and revise these procedures as necessary.

VII. <u>APPLICABILITY</u>:

These procedures are applicable to any consumable asset purchased with public funds, including the Inmate Recreation Fund, or donated to a state agency. These procedures apply to all divisions and facilities within the department, except the Division of Industries and Farms operations. The Division of Industries and Farms shall develop inventory accounting procedures consistent with the requirements of the Auditor of State and as appropriate for its operations.

Evelyn I. Ridley-Turner Commissioner

10/18/04

Date